

Material Variance Explanation Form

The purpose of completing the Material Variance Explanation Form is to identify and provide explanations for material variances between prior year (PY) and current year (CY) nominal account balances.

The Material Variance Explanation Form is required for each shared and non-shared fund submitting year-end financial reports to the SCO. The form must be listed on the Certification Letter under the heading of SUPPLEMENTAL FORMS. The Material Variance Explanation Form is available on the SCO website: http://www.sco.ca.gov/ard_reporting.html

Complete this form after you have prepared the fund's Report No. 7, Pre Closing Trial Balance or CSTARG02.

Instructions:

- Using the PY and CY Report No. 7s or CSTARG02s, fill in the PY and CY fund balances (yellow cells).
- The form will automatically calculate the amount and percentage of the variance.
- Based on the calculation, a message will identify whether or not the variance is material, and requires a variance explanation.
- If a variance explanation is *not* required, a form is still required to be submitted, but with no explanation required in the Material Variance Explanation section.
- If a variance explanation *is* required, complete the Material Variance Explanation section for the applicable nominal account type(s) at the bottom of the form, providing as much detail as possible.
- Submit **two copies** of the form with the fund's year-end reports to the SCO.
- The form must be listed on the Certification Letter under the heading "Supplemental Forms".

Material Variance Criteria:

1. Difference of CY Balance less PY Balance is greater than or equal to \$1,000,000.00.

AND

2. Percentage of variance (variance divided by PY) is greater than or equal to 10%. When either CY or PY is zero, variance percentage is inapplicable, and no explanation is needed.

Material Variance Explanations:

Explanations should answer the question "WHY is there a variance?" If applicable, always provide the specific legal citations, Government Code section, Budget Letter No., Executive Order No., etc.

Material Variance Explanation Form (cont.)

Examples of **acceptable** variance explanations:

- Revenue (GL XXXX) increased due to a new revenue source per Government Code section XXXX
- Expenditures (GL XXXX) decreased as a result of program XX budget cuts/lack of funding/increased federal reimbursements
- Transfers In (GL XXXX) increased due to additional federal grants administered for the XX program

Examples of **unacceptable** variance explanations:

- Revenues increased
- Expenditures decreased due to increased encumbrances
- Transfers-In increased due to federal grants